



Date: March 10, 2016

To: Thomas J. Bonfield, City Manager

Through: Keith Chadwell, Deputy City Manager

From: Reginald J. Johnson, Director
Department of Community Development

Subject: Resolution Providing Approval of a Financing by the Housing Authority of the City of Durham for Briar Green Apartments for Purposes of Section 147(F) of the Internal Revenue Code

Executive Summary

The Housing Authority of the City of Durham (“DHA”) seeks to issue its tax-exempt multifamily housing bonds for the benefit of the Briar Green Apartments affordable housing project. The project will be spearheaded by a private developer utilizing tax-exempt multifamily housing bonds, low-income housing tax credits and developer equity. As a result of the project, 200 new apartment units will be constructed and remain exclusively affordable to low-income residents of Durham. This project is new construction and will be located at 500 Danube Lane in north Durham.

DHA is requesting that the City approve the Bonds in order to satisfy federal law. The Internal Revenue Code requires that the financing be approved by the City Council after DHA holds a public hearing regarding the financing.

Recommendation

The Community Development Department recommends that the City Council adopt a Resolution providing approval, for purposes of Section 147(f) of the Internal Revenue Code only, of a multifamily housing facility known as Briar Green Apartments in the City of Durham, North Carolina and the financing thereof by the Housing Authority of the City of Durham of Multifamily Housing Bonds in an aggregate amount not to exceed \$19,990,000.

Background

DHA requests that the City adopt a resolution authorizing the issuance of DHA's multifamily housing revenue bonds for the purpose of financing the acquisition and construction of the Briar Green affordable housing development in north Durham.

Briar Green Apartments will be a 200-unit new construction affordable housing development and will be located at 500 Danube Lane (the "Development"). The Development will be constructed on 24.28 acres on the southeast corner of the intersection of Hebron Road and Danube Lane. The unit mix will include 56 one-bedroom, 96 two-bedroom and 48 three-bedroom apartments. All of the units will be made affordable to persons/households with incomes at or below sixty percent (60%) of the area median income for Durham County. In addition, ten percent (10%) of the total units will be further made available to persons/households whose incomes are at or below 50% of the area median income for Durham County. The income restrictions will remain on the Development for a period of at least 30 years.

The applicant-borrower is Pedcor Investments-2015-LXXXVI, L.P which is a related entity of the developer, Pedcor Development Associates, LLC, a Carmel, Indiana-based affordable housing developer (the "Borrower").

The partners of the Borrower are comprised of The Danube Housing Company, LLC (the general partner) and Pedcor Investments, A Limited Liability Company (the investor limited partner). The members of The Danube Housing Company, LLC are 2015 Housing Participants, LLC, Pedcor Investments, A Limited Liability Company, Thomas G. Crowe and Jared M. Houser. The members of Pedcor Investments, A Limited Liability Company, are Gerald K. Pedigo Trust, Bruce A. Cordingley and Phillip J. Stroffregen.

The Borrower has requested that DHA assist in financing a portion of the cost to acquire and construct the Development through the issuance of its tax-exempt multifamily housing revenue bonds not to exceed \$19,900,000 (the "Bonds").

Issues/Analysis

To provide background, a bond is an obligation to repay borrowed money. Multifamily housing bonds (also known as tax exempt mortgage revenue bonds) are a widely-accepted and approved tool that the public and private real estate development industries utilize to increase the production of affordable housing. North Carolina public housing authorities are authorized to issue tax exempt mortgage revenue bonds pursuant to N.C.G.S. §§ 157-9 and 157-37.

Through the issuance of tax-exempt mortgage revenue bonds non-profit and for-profit developers are able to secure lower-cost debt financing (via a low-interest construction/permanent loan) for the acquisition, construction, and substantial

rehabilitation of multifamily housing and single-family housing for low- and moderate-income residents.

The governmental body that issues a bond is referred to as the “issuer” of that bond. In this case, the issuer is DHA. More specifically, DHA will be what is referred to as a “conduit issuer” in that the DHA bonds will be issued in order to loan the bond proceeds to a private company (Pedcor Investments-2015-LXXXVI, L.P, the developer of Briar Green Apartments) authorized by law to use the proceeds for an eligible public purpose – the production of affordable housing (Briar Green Apartments).

The City is being asked to approve this matter to satisfy requirements of the Internal Revenue Code. Section 147(f) of the Code requires that the “applicable representative” (the City Council) of the jurisdiction in which the bond-financed project is located adopt a resolution after the issuer (DHA) holds a public hearing. DHA preliminarily approved this bond transaction on March 25, 2015 by passing an inducement resolution. DHA also held a public hearing and provided final approval of the Bonds, including approval of the Borrower, the plan of financing and financing team, on February 24, 2016.

The transaction financing sources will include tax exempt multifamily housing revenue bonds with FHA-221(d)(4) insurance (including a Ginnie Mae guaranty), 4% low-income housing tax credit equity, and deferred developer fees. The bonds will be privately placed with United Fidelity Bank, fsb, of Evansville, Indiana, and International City Bank, N.A. of Long Beach, California. The HUD servicer will be P/R Mortgage & Investment Corp. of Carmel, Indiana. The tax credits will be purchased by SunTrust Community Capital, LLC of Atlanta, Georgia. The Bonds will finance the costs of acquiring and constructing the Development.

The City Council’s approval will enable the transaction to close and allow DHA to invest fees generated from the Bond issuance into existing and ongoing DHA affordable housing real estate development initiatives. DHA will earn an issuer’s fee at closing equal to 1% of the aggregate amount of the Bonds issued.

Neither DHA nor the City will be liable for the repayment of the Bonds. The Bonds will be primarily secured by the Development revenues, a first mortgage on the facilities, Federal Housing Administration (FHA) insurance (including a Ginnie Mae guaranty), and additional credit guarantees provided by the Borrower. The Bonds will not be secured by any form of taxation or funds of the City. Neither will the Bonds represent or constitute a general obligation of DHA or the City. Additionally, the Bonds will not be regarded as an obligation of DHA or the City.

Should the City approve this resolution, DHA will seek final approval from the Local Government Commission before issuing the Bonds. Local Government Commission approval is slated for April 5, 2016. After Local Government Commission approval, the Bonds may be issued and sold, and the proceeds loaned to the Borrower to

construct the Development. The closing is projected to occur shortly after Local Government Commission approval is obtained.

Alternatives

The City could choose not to authorize the issuance of the Bonds, which would, in effect, prevent the Borrower from financing the transaction utilizing DHA's tax-exempt multifamily housing bonds. Furthermore, DHA would be prevented from earning needed fees from the transaction slated for reinvestment into existing and future DHA affordable housing real estate development activities within the City of Durham.

Financial Impact

The adoption of this resolution has no fiscal impact on the City.

SDBE Summary

Not applicable